



UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Basic Financial Statements and Single Audit Reporting
in Accordance with the Uniform Guidance

September 30, 2020

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

September 30, 2020

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Management's Discussion and Analysis (Unaudited)
September 30, 2020 and 2019

Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama (the University), including the University of South Alabama Health System (USA Health), a division of the University, at September 30, 2020 and 2019, and for the years then ended. This discussion has been prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

The basic financial statements of the University consist of the University and its component units. The financial position and results of operations of the component units either are blended with the University's financial position and results of operations or are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board (GASB). As more fully described in note 1 to the basic financial statements, the University of South Alabama Professional Liability Trust Fund, the University of South Alabama General Liability Trust Fund and USA HealthCare Management, LLC are reported as blended component units. The University of South Alabama Foundation, the USA Research and Technology Corporation and the University of South Alabama Health Care Authority (HCA) are discretely presented. During fiscal year 2019 and 2020 several non-profit limited liability companies were formed, with the University as sole member, to manage the complex patient and insurance billings of USA Health.

Financial Highlights

At September 30, 2020 and 2019, the University had total assets and deferred outflows of \$1,610,872,000 and \$1,413,980,000, respectively; total liabilities and deferred inflows of \$1,394,594,000 and \$1,321,855,000, respectively; and net position of \$216,278,000 and \$92,125,000, respectively.

The University has experienced a significant growth in its health care operations over the past two years with increases in net patient service revenues of \$62,635,000, or 13%, between 2019 and 2020 and \$75,762,000, or 18%, between 2018 and 2019. The University also experienced significant growth in its cash and investment balances between 2019 and 2020, increasing by \$145,175,000, or 31% to \$609,822,000 at September 30, 2020. This increase is due largely to significant increases in hospital days, surgeries and other procedures throughout the health system and is driven by increases in the Health System's primary care physician referral base. This is a trend that management expects to continue in the immediate future.

An overview of each statement is presented herein along with financial analysis of the transactions impacting each statement. Where appropriate, comparative financial information is presented to assist in the understanding of this analysis.

Analysis of Financial Position and Results of Operations

Statements of Net Position

The statements of net position present the assets, deferred outflows, liabilities, deferred inflows and net position of the University at September 30, 2020 and 2019. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may be either expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated by management for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statements of net position, along with all of the University's basic

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financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statements of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments and net patient receivables. Of these amounts, cash and cash equivalents, investments and net patient receivables comprise approximately 67%, 10% and 13%, respectively, of current assets at September 30, 2020. Noncurrent assets consist primarily of restricted cash and cash equivalents, restricted investments and capital assets.

The condensed schedules of net position at September 30, 2020, 2019 and 2018 follow (in thousands):

Condensed Schedules of Net Position

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Total assets and deferred outflows of the University as of September 30 is as follows:

Total Assets and Deferred Outflows
In Millions

2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	
2019	
2020	\$1,611

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UNIVERSITY OF SOUTH ALABAMA
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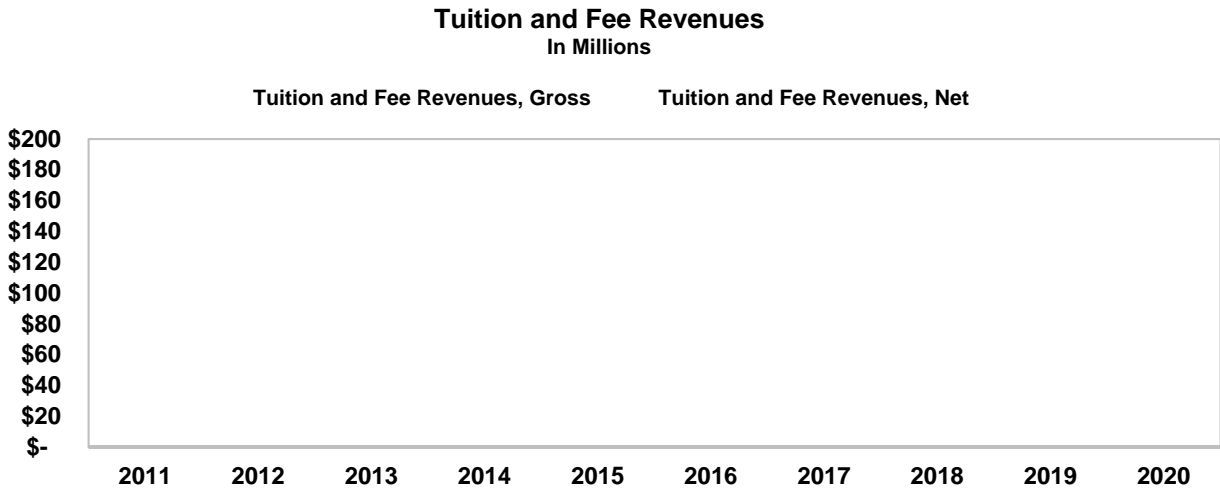
Net Position
In Millions

2011				\$417
2012			\$456	
2013			\$493	
2014			\$500	
2015	\$195			
2016	\$218			
2017	\$266			
2018	\$35			
2019	\$92			
2020	\$216			

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Tuition revenues have generally increased in recent years. A decline in enrollment coupled with increases in tuition rates have caused tuition revenues to remain relatively flat. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:



University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2020 is presented as follows:

Depreciation and amortization, **Total Expenses** Interest and other

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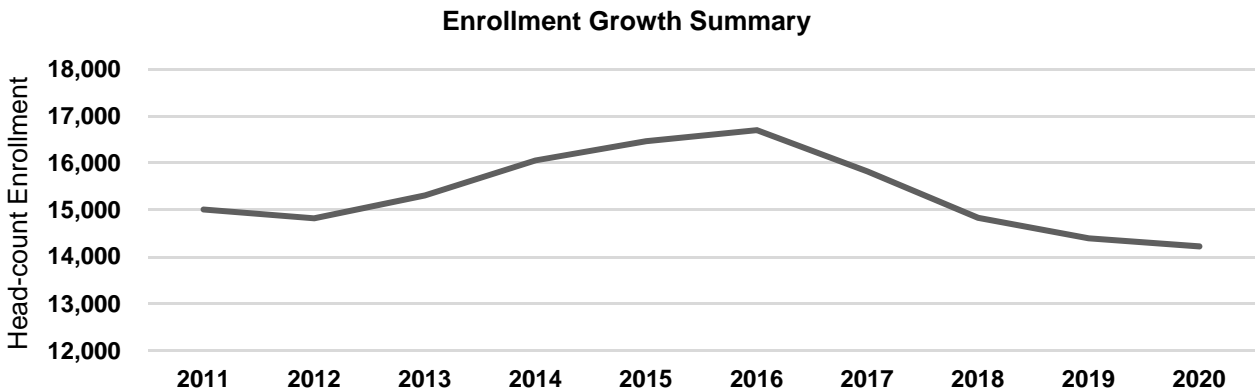
Functional classifications represent expenses categorized

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The University's bond credit rating is A1 (Stable) as rated by Moody's Investors Service and A+ (Stable) as rated by Standard and Poor's Global Ratings. Neither rating changed during 2020 or 2019. Moody's Investors Service and Standard and Poor's Global Ratings affirmed their ratings in conjunction with their assessment of the Series 2019 and 2020 Bond issuances. Additional information regarding the University's debt is included in note 7.

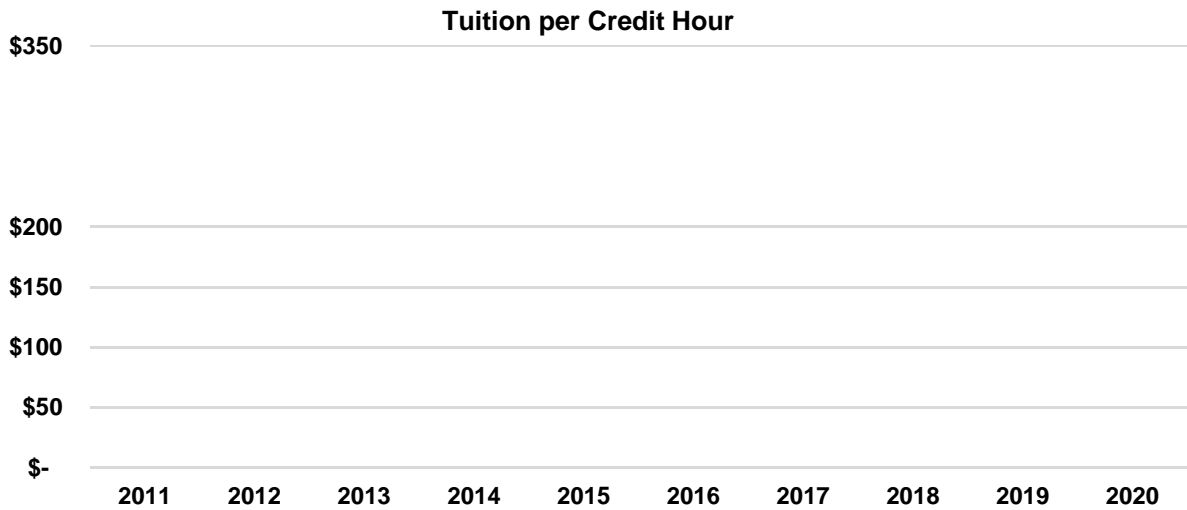
Economic Outlook

While, tuition and fee rates per credit hour have increased over the past ten years, there have been declines in enrollment since 2016. The University experienced a decline in enrollment of approximately 3% from Fall 2018 to Fall 2019 and an additional decline of 1% between Fall 2019 and Fall 2020, with declines primarily resulting from a decrease in international student enrollment and a decrease in the number of incoming freshmen. The enrollment trend for the University between 2011 and 2020 is as follows:



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During the same period, in-state tuition per credit hour has increased by approximately 34%. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-state tuition per credit hour between 2011 and 2020 is as follows:



A state appropriation in the amount of approximately \$118,299,000 and \$115,209,000 was authorized and received for the years ended September 30, 2020 and 2019, respectively. An additional appropriation of approximately \$4,764,000 was received during fiscal year 2020 for advancement and (2020) 5.6 (02) Total \$0 (16) JEM (15) 07

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In addition to state appropriations, the University is subject to declines in general economic and political conditions in the United States and, specifically, the State of Alabama. Weakening of the economy, as well as



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Independent Auditors' Report

The Board of Trustees
University of South Alabama:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units, as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Net Position

September 30, 2020 and 2019

(In thousands)

	2020	2019
Current assets:		
Cash and cash equivalents	\$ 237,573	110,282
Investments	35,831	28,572
Patient receivables (net of allowance for doubtful accounts of \$74,026 in 2020 and \$92,114 in 2019)	45,796	53,104
Accounts receivable, other	16,694	14,479
Notes receivable, net	7,321	8,063
Prepaid expenses, inventories, and other	12,020	9,656
Total current assets	355,235	224,156
Noncurrent assets:		
Restricted cash and cash equivalents	50,805	60,181
Restricted investments	265,620	255,412
Investments	19,993	10,200
Other noncurrent assets and accounts receivable	4,609	13,192
Capital assets, net	818,084	759,801
Total noncurrent assets	1,159,111	1,098,786
Total assets	1,514,346	1,322,942
Deferred outflows		
Total assets and deferred outflows	1,610,872	1,413,980
Current liabilities:		
Accounts payable and accrued liabilities	113,363	84,748
Unrecognized revenues	101,731	56,141
Deposits	3,386	3,019
Current portion of other long-term liabilities	6,515	6,374
Current portion of long-term debt	28,033	22,565
Total current liabilities	253,028	172,847
Noncurrent liabilities:		
Long-term debt, less current portion	443,321	420,861
Net pension liability	294,615	282,739
Net other postemployment benefits liability	103,288	259,418
Other long-term liabilities, less current portion	86,511	90,077
Total noncurrent liabilities	927,735	1,053,095
Total liabilities	1,180,763	1,225,942
Deferred inflows		
Total liabilities and deferred inflows	1,394,594	1,321,855
Net position:		
Net investment in capital assets	377,602	354,556
Restricted, nonexpendable:		
Scholarships	32,898	29,028
Other	30,725	30,350
Restricted, expendable:		
Scholarships	24,699	18,490
Other	58,213	50,649
Unrestricted deficit	(307,859)	(390,948)
Total net position	\$ 216,278	92,125

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
 (Discretely Presented Component Unit of the University of South Alabama)

Consolidated Statements of Financial Position

June 30, 2020 and 2019

(In thousands)

Assets	2020	2019
Cash and cash equivalents	\$ 2,633	1,520
Investments:		
Equity securities	157,457	150,796
Timber and mineral properties	168,063	164,307
Real estate	53,455	61,508
Other	5,811	5,809
Other assets	453	444
Total assets		
Liabilities and Net Assets		
Liabilities:		
Accounts payable		
Other liabilities		
Total liabilities		
Net assets:		
Without donor restrictions		
With donor restrictions		
Total net assets		
Total liabilities and net assets		

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit of the University of South Alabama)

Statements of Net Position

September 30, 2020 and 2019

(In thousands)

	2020	2019
Assets:		
Current assets:		
Unrestricted cash and cash equivalents	\$ 819	649
Rent receivable	187	211
Prepaid expenses and other current assets	19	2
Total current assets	1,025	862
Noncurrent assets:		
Intangible assets, net	215	217
Capital assets, net	19,738	20,840
Total noncurrent assets	19,953	21,057
Deferred outflows	1,089	1,262
Total assets and deferred outflows	22,067	23,181
Liabilities:		
Current liabilities:		
Deposits, other current liabilities, and accrued expenses	202	455
Unrecognized rent revenue	353	393
Current portion of notes payable	7,950	1,043
Total current liabilities	8,505	1,891
Noncurrent liabilities:		
Notes payable, excluding current portion	12,531	20,201
Payable to University of South Alabama	—	368
Total noncurrent liabilities	12,531	20,569
Total liabilities	21,036	22,460
Net position:		
Net investment in capital assets	555	393
Unrestricted	476	328
Total net position	\$ 1,031	721

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(Discretely Presented Component Unit of the University of South Alabama)

Statements of Net Position

September 30, 2020 and 2019

(In thousands)

	2020	2019
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,576	1,188
Patient receivables (net of allowance for doubtful accounts of \$450 in 2020 and \$381 in 2019)	1,552	2,195
Inventories	32	155
Other current assets	614	678
Total current assets	4,774	4,216
Noncurrent assets:		
Capital assets	1,932	1,602
Total assets	6,706	5,818
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	2,258	1,448
Accrued salaries and wages	2,535	1,439
Unrecognized revenue	1,640	—
Other current liabilities	19	—
Total current liabilities	6,452	2,887
Noncurrent liabilities:		
Long term debt, less current portion	24	—
Total liabilities	6,476	2,887
Net position:		
Net investment in capital assets	1,889	1,602
Unrestricted	(1,659)	1,329
Total net position	\$ 230	2,931

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2020 and 2019

(In thousands)

	2020	2019
Operating revenues:		
Tuition and fees (net of scholarship allowances of \$38,995 in 2020 and \$35,767 in 2019)	\$ 129,644	139,871
Patient service revenues (net of provision for bad debts of \$99,459 in 2020 and \$99,713 in 2019)	554,431	491,796
Federal grants and contracts	21,814	20,276
State grants and contracts	8,884	9,513
Private grants and contracts	8,970	6,858
Auxiliary enterprises (net of scholarship allowances of \$1,206 in 2020 and \$1,106 in 2019)	19,038	21,481
Other operating revenues	39,911	41,046
Total operating revenues	782,692	730,841
Operating expenses:		
Salaries and benefits	491,791	495,123
Supplies and other services	285,289	268,416
Scholarships and fellowships	15,464	13,990
Utilities	15,515	16,877
Depreciation and amortization	50,237	48,625
Total operating expenses	858,296	843,031
Operating loss	(75,604)	(112,190)
Nonoperating revenues (expenses):		
State appropriations	123,063	115,209
Net investment income	23,378	8,203
Interest expense	(9,543)	(12,106)
Other nonoperating revenues	64,035	48,307
Other nonoperating expenses	(13,218)	(11,012)
Net nonoperating revenues	187,715	148,601
Income before capital contributions and grants and additions to endowment	112,111	36,411
Capital contributions and grants	6,631	13,617
Additions to endowment	5,411	6,699
Increase in net position	124,153	56,727
Net position:		
Beginning of year	92,125	35,398
End of year	\$ 216,278	92,125

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
 (Discretely Presented Component Unit of the University of South Alabama)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2020

(In thousands)

Revenues, gains, losses and other support:			
Net realized and unrealized gains (losses) on investments			
Rents, royalties and timber sales			
Interest and dividends			
Gifts			
Required match of donor contributions			
Interfund interest			
Other income			
Net assets released from program restrictions			
Total revenues, gains, losses and other support			
Expenditures:			
Programs			
Capital expenditures			
Other			
Revenues less expenditures:			
Reserves:			
(Disposals)			
Restructuring			
Other			
Total reserves:			
Net change in net assets			
Net assets at beginning of year			
Net assets at end of year			
Net assets at beginning of year			
Net assets at end of year			

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit of the University of South Alabama)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2019

(In thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, losses and other support:			
Net realized and unrealized gains (losses) on investments	\$ (2,731)	19,146	16,415
Rents, royalties and timber sales	3,080	152	3,232
Interest and dividends	925	1,289	2,214
Gifts	1	4,136	4,137
Required match of donor contributions	(4)	4	—
Interfund interest	(500)	500	—
Other income	335	—	335
Net assets released from program restrictions	7,683	(7,683)	—
Total revenues, gains, losses and other support	<u>8,789</u>	<u>17,544</u>	<u>26,333</u>
Expenditures:			
Program services:			
Faculty support	2,473	—	2,473
Scholarships	1,172	—	1,172
Other academic programs	6,390	—	6,390
Total program service expenditures	10,035	—	10,035
Management and general	2,195	—	2,195
Other investment expense	1,591	—	1,591
Depletion expense	3,170	—	3,170
Depreciation expense	40	—	40
Total expenditures	<u>17,031</u>	<u>—</u>	<u>17,031</u>
Change in net assets	(8,242)	17,544	9,302
Net assets – beginning of year	<u>97,487</u>	<u>276,723</u>	<u>374,210</u>
Net assets – end of year	<u>\$ 89,245</u>	<u>294,267</u>	<u>383,512</u>

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit of the University of South Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2020 and 2019

(In thousands)

	2020	2019
Operating revenues	\$ 3,961	3,607
Operating expenses:		
Building management and operating expenses	1,163	1,189
Depreciation and amortization	1,161	1,125
Legal and administrative fees	221	192
Insurance	29	29
Total operating expenses	2,574	2,535
Operating income	1,387	1,072
Nonoperating revenues (expenses):		
Interest expense	(1,085)	(1,123)
Debt issuance expense	—	(25)
Other	8	(7)
Net nonoperating expenses	(1,077)	(1,155)
Change in net position	310	(83)
Net position:		
Beginning of year	721	804
End of year	\$ 1,031	721

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(Discretely Presented Component Unit of the University of South Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2020 and 2019

(In thousands)

	2020	2019
Operating revenues:		
Patient service revenues (net of provision for bad debts of \$643 in 2019 and \$283 in 2019)	\$ 18,581	22,470
Other operating revenues	1,196	1,098
Total operating revenues	19,777	23,568
Operating expenses:		
Salaries and benefits	22,992	18,132
Building and equipment expenses	2,787	1,751
Medical and surgical supplies	2,194	6,870
Other expenses	4,769	4,231
Depreciation and amortization	415	276
Total operating expenses	33,157	31,260
Operating loss	(13,380)	(7,692)
Nonoperating revenues:		
Investment income	5	—
Support from University of South Alabama	10,478	9,394
Other nonoperating revenues	196	9
Total nonoperating revenues	10,679	9,403
(Decrease) increase in net position	(2,701)	1,711
Net position at beginning of year	2,931	1,220
Net position at end of year	\$ 230	2,931

See accompanying notes to basic financial statements.

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Statements of Cash Flows

Years ended September 30, 2020 and 2019

(In thousands)

Reconciliation of operating loss to net cash provided by (used in) operating activities:

Operating loss

\$

Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:

Depreciation and amortization

Changes in assets and liabilities, net:

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Notes to Basic Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

On May 3, 1963, the Governor of Alabama signed enabling legislation creating the University of South Alabama (the University). The acco

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Notes to Basic Financial Statements

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Trust Fund (PLTF), General Liability Trust Fund (GLTF), USA HealthCare Management, LLC (HCM), USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC and USA Health Reference Lab Billing Services, LLC as blended components with insignificant assets.

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UNIVERSITY OF SOUTH ALABAMA
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Notes to Basic Financial Statements

September 30, 2020 and 2019

amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Accordingly, the University's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities, revenues and expenses,01 Td[(Note)5.3N

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Notes to Basic Financial Statements

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(m) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of employer contributions to the Teacher's Retirement System of Alabama and the Public Education Employees Health Insurance Plan subsequent to the plan's measurement dates, changes in proportion and differences between employer contributions and proportionate share of contributions related to the OPEB plan, changes in actuarial and other assumptions related to the pension plan, fair value of interest rate swaps and the loss on the defeasement of certain bond amounts.

Deferred inflows of resources consist of the proportionate share of the differences between expected and actual experience related to the pension plan, net difference between projected and actual earnings on pension and OPEB plan investments, changes of assumptions in OPEB plan, changes in proportion and differences between employer contributions and proportionate share of contributions in pension and OPEB plans, fair values of interest rate swaps and gain on the refunding of certain bond amounts.

(n) Bond Premiums, Discounts, and Loss on Extinguishment Costs

Bond premiums, discounts, and loss on extinguishment costs associated with the issuance of certain bond series are capitalized and amortized over the life of the respective bond series on a straight-line basis in accordance with generally accepted accounting principles.

(o) Accounts Receivable

Patient receivables primarily result from hospital and ambulatory patient service revenues. Accounts receivable – other includes amounts due from students, the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts and patient receivables are recorded net of estimated uncollectible amounts.

(p) Inventories

The University's inventories primarily consist of medical supplies and pharmaceuticals. Medical supplies and pharmaceuticals are stated at the lower of cost (first-in, first-out method) or market.

(q) Capital Assets

Capital assets are recorded at cost, if purchased, or, if donated, at acquisition value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable assets using the straight-line method. Major renewals and renovations are capitalized. Costs for repairs and maintenance are expensed when incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the statements of revenues, expenses, and changes

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All capital assets other than land are depreciated using the following asset lives:

Buildings, infrastructure and certain building components	40 to 100 years
Fixed equipment	10 to 20 years
Land improvements	8 to 20 years
Library materials	10 years
Other equipment	4 to 15 years

Certain buildings are componentized for depreciation purposes.

Interest costs for certain constructed assets are capitalized as a component of the cost of acquiring those assets. The amount of interest capitalized for the years ended September 30, 2020 and 2019 was approximately \$4,662,000 and \$2,030,000, respectively.

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the years ended September 30, 2020 and 2019, no impairments were recorded.

(r) Unrecognized Revenues

Student tuition, fees, and dormitory rentals are initially recorded as unrecognized revenues and then recognized over the applicable portion of each school term. In fiscal year 2020, the University received funding from the CARES Act which is reported as unrecognized revenues in the 2020 statement of net position. Additionally, USA Health received Advanced Medicare funding, and this amount is also reported as unrecognized revenues in the 2020 statement of net position.

(s) Cost Sharing Multiple-Employer Pension Plan

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan (the Plan) administered by the Teachers' Retirement System of Alabama (TRS). The TRS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to Plan requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fa

UNIVERSITY OF SOUTH ALABAMA
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Notes to Basic Financial Statements

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outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the Plan. In accordance with GASB, the Trust is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

(u) Classification of Net Position

The University's net position is classified as follows:

Net investment in capital assets reflects the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of *net investment in capital assets*.

Restricted, nonexpendable net position consists of endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted, expendable net position includes resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted net position represents resources derived from student tuition and fees, state appropriations, patient service revenues, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees, they are available for use at the discretion of the governing board to meet current expenses for any purpose. Substantially all unrestricted net position is designated for academic and research programs and initiatives and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation.

(v) Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's basic financial statements based on their classification as either an exchange or a

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nonexchange transaction. To the extent that revenues from such programs satisfy tuition and fees and

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revenue is recognized as the work is completed. For grants without either of the above requirements, the revenue is recognized as it is received.

(aa) Patient Service Revenues and Electronic Health Records Incentive Program

Patient service revenues are reported at estimated net realizable amounts due from patients, third-party payers and others for healthcare services rendered, including estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods, as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

The Centers for Medicare and Medicaid Services (CMS) has implemented provisions of the American

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that is disclosed in the financial statements related to debt. The University adopted this Statement and applied the effects retroactively. All effected disclosures were updated accordingly. There was no significant impact to the University in the adoption of this statement.

(2) Income Taxes

The University is classified as both a governmental entity under the laws of the State of Alabama and as a tax-exempt entity under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Consistent with

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Board of Trustees. The purpose of the nonendowment cash pool investment policy is to provide

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The University invests in several private equity funds. At September 30, 2020, the University had capital commitments to those funds of \$7,269,000.

(i) *Credit Risk and Conc. 1 tn ~~1~~Chion of Credit*

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securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

(v) *Fair Value Measurement*

Fair value measurements represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University measures and records its investments using fair value measurement guidelines established by GASB Statement No. 72. These guidelines prioritize the inputs of valuation techniques used to measure fair value, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The level in the fair value hierarchy that determines the classification of an asset or liability depends on the lowest level input that is significant to the fair value measurement. Observable inputs are derived from quoted market prices for assets or liabilities traded on an active market where there is sufficient activity to determine a readily determinable market price. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable inputs. The University's assets that have unobservable inputs consist of the investment in real estate, with fair value based on an independent third party appraisal performed by qualified appraisers specializing in real estate investments, and of investments in private capital, with fair value determined by the investment managers and primarily utilizes management assumptions and best estimates after considering internal and external factors. Other assets included in the University's investment portfolio with unobservable inputs are the shares or units in certain partnerships or other commingled funds that do not have readily determinable fair values. For these funds, fair value is estimated using the net asset value reported by the investment managers as a practical expedient to fair value. Such investments have not been categorized within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of net position.

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Description	Asset fair value measurements at September 30, 2019			
	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	\$ 14,681	—	—	14,681
U.S. federal agency notes	—	75,299	—	75,299
Commingled equity funds	58,570	37,355	—	95,925
Commingled fixed income funds	5,948	21,643	—	27,591

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(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling \$157,457,000 and \$150,796,000 at June 30, 2020 and 2019, respectively.

Investment income was comprised of the following for the years ended June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Unrealized gains	\$ 7,651	13,188
Realized gains	3,096	3,227
Timber sales	3,190	2,505
Interest and dividends	2,182	2,214
Rents	705	642
Royalties	63	85
	<u>\$ 16,887</u>	<u>21,861</u>

Investment related expenses in the amounts of \$368,000 and \$359,000 are included in the USA Foundation's management and general expenses in the accompanying consolidated statements of activities and changes in net assets for the years ended June 30, 2020 and 2019, respectively.

Real estate at June 30, 2020 and 2019 consisted of the following property held (in thousands):

	<u>2020</u>	<u>2019</u>
Land and land improvements – held for investment	\$ 52,423	60,448
Building(l)-202m-0.0 b-202m-26.3 (l)-20 (l)6.3 (119TJ0.0082 Tc 0.539 -1.305 Td[6]28o5x (-7m)-30.8 (en)6.3 (t)-4996 0 Td	<u></u>	<u></u>

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framework for measuring it, as well as establishing additional disclosure requirements about the use of fair value to measure assets and liabilities. Fair value measurements are classified as either observable or unobservable in nature. Observable fair values are derived from quoted market prices for investments traded on an active exchange or in dealer markets where there is sufficient activity and liquidity to allow price discovery by substantially all market participants (Level 1). The USA Foundation's observable values consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable values are fair value measurements derived either directly or indirectly from quoted market prices (Level 2). Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable (Level 3). The USA Foundation's unobservable values consist of investments in timber and real estate with fair values based on independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

The USA Foundation's investment assets at June 30, 2020 and 2019, are summarized based on the criteria of ASC 820 as follows (in thousands):

Description	Fair value measurements at June 30, 2020			
Equity securities				
Timber and mineral properties				
Real estate				
Other investments				

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Description	Fair value measurements at June 30, 2019			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 96,151	—	—	96,151
Timber and mineral properties	—	—	164,307	164,307
Real estate	—	—	61,508	61,508
Other investments	—	—	5,809	5,809
	\$ 96,151	—	231,624	327,775
Investment in Commonfund measured at NAV				54,645
			\$	382,420

For the years ended June 30, 2020 and 2019, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description	2020		
	Timber and mineral properties	Real estate	Other

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At September 30, 2020, the University had commitments of approximately \$14,513,000 related to various construction projects.

	2019				Ending balance
	Beginning balance	Additions	Transfers	Reductions	
Capital assets not being depreciated:					
Land and other	\$ 23,106	1,276	—	—	24,382
Construction-in-progress	83,472	69,091	(55,533)	—	97,030
	<u>106,578</u>	<u>70,367</u>	<u>(55,533)</u>	<u>—</u>	<u>121,412</u>
Capital assets being depreciated:					
Land improvements	39,591	2,219	6,598	—	48,408
Buildings, fixed equipment, and infrastructure	786,620	4,459	47,259	(147)	838,191
Other equipment	246,185	7,952	1,676	(12,535)	243,278
Library materials	74,958	3,799	—	—	78,757
	<u>1,147,354</u>	<u>18,429</u>	<u>55,533</u>	<u>(12,682)</u>	<u>1,208,634</u>
Less accumulated depreciation for:					
Land improvements	(23,224)	(1,904)	—	—	(25,128)
Buildings, fixed equipment, and infrastructure	(301,598)	(23,625)	—	123	(325,100)
Other equipment	(151,189)	(19,923)	—	12,418	(158,694)
Library materials	(58,105)	(3,218)	—	—	(61,323)
	<u>(534,116)</u>	<u>(48,670)</u>	<u>—</u>	<u>12,541</u>	<u>(570,245)</u>
Capital assets being depreciated, net	<u>613,238</u>	<u>(30,241)</u>	<u>55,533</u>	<u>(141)</u>	<u>638,389</u>
Capital assets, net \$	<u><u>719,816</u></u>	<u><u>40,126</u></u>	<u><u>—</u></u>	<u><u>(141)</u></u>	<u><u>759,801</u></u>

At September 30, 2019, the University had commitments of approximately \$42,456,000 related to various construction projects.

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(b) USA Research and Technology Corporation

Changes in capital assets for the years ended September 30, 2020 and 2019 are as follows (in thousands):

	2020				Ending balance
	Beginning balance	Additions	Transfers	Reductions	
Land	\$ 223	—	—	—	223
Land improvements	1,985	—	—	—	1,985
Buildings	28,452	13	—	—	28,465
Tenant improvements	1,974	4	—	(3)	1,975
Other equipment	387	—	—	(6)	381
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(6) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2020 and 2019 follows (in thousands):

	2020				Less amounts	
	Beginning balance	Additions	Reductions	Ending balance	due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	\$ 423,629	64,528	(35,506)	452,651	20,314	432,337
Notes payable from direct borrowings	4,295	2,147	(1,011)	5,431	1,063	4,368
Capital lease obligations	15,502	3,584	(5,814)	13,272	6,656	6,616
Total long-term debt	443,426	70,259	(42,331)	471,354	28,033	443,321
Other noncurrent liabilities:						
Net pension liability	282,739	11,876	—	294,615	—	294,615
Net OPEB liability	259,418	8,565	(164,695)	103,288	—	103,288
Other long-term liabilities	96,451	2,418	(5,843)	93,026	6	

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	2019					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	\$ 370,201	71,813	(18,385)	423,629	16,211	407,418
Notes payable from direct borrowings	5,160	—	(865)	4,295	892	3,403
Capital lease obligations	18,270	2,240	(5,008)	15,502	5,462	10,040
Total long-term debt	<u>393,631</u>	<u>74,053</u>	<u>(24,258)</u>	<u>443,426</u>	<u>22,565</u>	<u>420,861</u>
Other noncurrent liabilities:						
Net pension liability	296,654	—	(13,915)	282,739	—	282,739
Net OPEB liability	256,178	3,240	—	259,418	—	259,418
Other long-term liabilities	91,165	15,596	(10,310)	96,451	6,374	90,077
Total other noncurrent liabilities	<u>643,997</u>	<u>18,836</u>	<u>(24,225)</u>	<u>638,608</u>	<u>6,374</u>	<u>632,234</u>
Total noncurrent liabilities	<u>\$ 1,037,628</u>	<u>92,889</u>	<u>(48,483)</u>	<u>1,082,034</u>	<u>28,939</u>	<u>1,053,095</u>

Other long-term liabilities primarily consist of self-insurance liabilities, liabilities related to compensated absences and the fair value of derivatives. Amounts due within one year are included in current portion of other long-term liabilities.

During 2017, the University entered into a note payable for a period of ten years payable monthly at \$19,000. This agreement commenced in November 2016 to finance improvements of the HVAC system. In January 2020, there was an amendment of the Alabama Power note payable by an increase in the amount of \$2,147,000. The amount outstanding on the note at September 30, 2020 and 2019 is \$3,405,000 and \$1,605,000, respectively, and is reported as long-term debt (and current portion thereof) in the statements of net position.

During 2015, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund the acquisition of certain real property by USA Health. The total amount available under the line of credit was \$5,000,000 and interest on the outstanding amounts accrued at the rate of the London InterBank Offered Rate (LIBOR) plus 1.00%. In July 2018, the University converted the line of credit into a term loan for a period of five years, with monthly payments of \$63,000 and interest accruing at the fixed rate of 3.85% per annum. The amount outstanding at September 30, 2020 and 2019 is \$2,029,000 and \$2,690,000, respectively, and is reported as long-term debt (and current portion thereof) in the statements of net position.

During 2020, the University entered into a variable rate revolving line of credit with Hancock Whitney Bank to ensure the University was adequately prepared for potential cash-flow issues that could have been caused by the onset of the COVID-19 pandemic. The line of credit expires in June 2021. The total amount available under the line of credit is \$50,000,000. Interest accrues on any outstanding principal balances at

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a rate of LIBOR plus 1.5%. There is also an unused fee of .15% that is billed to the University quarterly.
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which it has under any instrument executed in connection with the loan. Prior to any of these actions, however, PNC Bank will give the University 30 days to cure the default. The Corporation's outstanding note from a direct borrowing with the University contains a provision that, in the event principal payments are not made when due, allows the University to declare the loan due and payable.

(ii) *Debt Service on Long-Term Obligations*

At September 30, 2020, total future debt service by fiscal year is as follows (in thousands):

	Debt service on notes		
	Principal	Interest	Total
2021	\$ 7,950	661	8,611
2022	880	523	1,403
2023	913	489	1,402
2024	530	460	990
2025	554	436	990
2026–2030	9,654	1,068	10,722
Total	\$ 20,481	3,637	24,118

(iii) *Derivative Transaction*

The Corporation was a party to a derivative with Wells Fargo Bank, N.A., the counterparty (successor to Wachovia Bank, N.A. the original counterparty). The derivative was a “receive variable, pay fixed” interest rate swap entered into in connection with the promissory note to Wells Fargo Bank, N.A.

The swap was terminated on June 20, 2018 as part of a transaction refunding the Wells Fargo loan with the proceeds of a loan from PNC Bank. The fee paid by the Corporation to Wells Fargo to terminate the swap was \$1,478,000. Pursuant to GASB Statement No. 65, the fee is reported in deferred outflows on the statements of net position and amortized to interest expense according to the percentage of annual interest paid on the loan from PNC Bank to the total interest to be paid on that loan over the 118 months that were remaining on the Wells Fargo loan when the swap was terminated. At September 30, 2020 and 2019, the balance was \$1,089,000 and \$1,262,000, respectively.

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(7) Bonds Payable

Bonds payable consisted of the following at September 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
University Facilities Revenue Capital Improvement Bonds, Series 2010, 3.81%, payable through August 2030	\$ —	19,086
University Facilities Revenue Capital Improvement Bonds, Series 2012-A, 2.92% payable through August 2032	16,523	17,700
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	22,764	24,196
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033	5,691	6,049
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028	5,841	6,485
University Facilities Revenue Refunding Bonds, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, 0.83% and 1.87% at September 30, 2020 and 2019, respectively, payable through March 2024		

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	2020	2019
University Facilities Revenue Bonds, Series 2019-C, 1.87%, payable through April 1, 2030	\$ 17,630	—
University Facilities Revenue Bonds, Series 2020, 4%, payable through April 1, 2040	37,005	—
	422,134	400,206
Plus unamortized premium	32,141	25,155
Less unamortized debt extinguishment costs	(1,624)	(1,732)
	\$ 452,651	423,629

Substantially all student tuition and fee and auxiliary revenues secure University bonds. Additionally, security for all bonds includes USA Health Children's and Women's Hospital revenues in an amount not exceeding \$10,000,000. The Series 2012-A Bonds began maturing in August 2013. The Series 2012-A Bonds are redeemable beginning in August 2021. The Series 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A Bonds began maturing in March 2015 and are redeemable by the University at any time. The Series 2015 Bonds began maturing in August 2015 and are redeemable beginning in June 2020. The Series 2016-A Bonds began maturing in November 2018 and are redeemable beginning in November 2026. The Series 2016-B, C and D Bonds will begin maturing in December 2024 and became redeemable as of December 2017. The Series 2017 Bonds began maturing in October 2017 and are redeemable beginning in October 2027. The Series 2019-A and B Bonds will begin maturing in April 2033 and April 2021, respectively, and are redeemable beginning in April 2029. The Series 2019-C Bonds began maturing on April 1, 2020 and are not subject to redemption at the option of the University. Series 2020 Bonds will begin maturing on April 1, 2021 and are redeemable beginning April 1, 2030.

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016, with a face value of \$85,605,000. The proceeds from the Series 2016 Bonds were used to partially defease the Series 2008 Bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series 2008 Bonds when they were called in December 2018. Neither the asset of the escrow trust account, nor the defeased indebtedness is included in the accompanying statements of net position. The loss on the defeasement of the Series 2008 Bonds of \$7,859,000 was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016 Bonds and the balance of the related deferred outflow totaled \$6,274,000 and \$6,663,000, respectively, at September 30, 2020 and 2019. The principal outstanding on all defeased bonds is \$80,310,000 and \$83,020,000 at September 30, 2020 and 2019, respectively. The undefeased portion of the Series 2008 bonds was paid in full in August 2018.

In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C & D, with a face value totaling \$100,000,000. The proceeds refunded the remaining outstanding Series 2006 Bonds. The gain on the refunding of the Series 2006 Bonds of \$4,539,000 was recorded as a deferred inflow and is being amortized over the remaining life of the Series 2016-B, C & D

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The 2016 swap will terminate in December 2036, when the Series 2016-B, C & D Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the bonds. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 5% and receives on a monthly basis a variable payment of 68% of the one-month LIBOR plus 0.25%. Conversely, the Series 2016-B, C & D Bonds bear a weighted average interest on a monthly basis at 68% of the one-month LIBOR rate plus 0.79%.

Fair value. The 2014 interest rate swap had a negative fair value of approximately (\$9,138,000) at its inception. This amount, net of any amortization and adjustments to fair market value, is reported as a borrowing arising from the 2014 interest rate swap as other long-term liabilities in the amount of (\$3,001,000) and (\$3,653,000) in the statements of net position at September 30, 2020 and 2019, respectively. The change in the fair value of the swap of \$652,000 and (\$56,000), respectively, during the years ended September 30, 2020 and 2019, is reported as a deferred inflow and contra liability (other long-term liabilities) in the statements of net position since the interest rate swap is a hedging derivative instrument. Net deferred inflows of resources for the 2014 interest rate swap totaled \$197,000 and \$459,000 at September 30, 2020 and 2019, respectively.

The 2016 interest rate swap had a negative fair value of approximately (\$48,530,000) at its inception. This amount, net of any amortization and adjustments to fair value, is reported as a borrowing arising from the 2016 interest rate swap as other long-term liability

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A summary of the basis of reimbursement with major-third party payers follows:

Medicare – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, USA Health is reimbursed for both direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. USA Health is generally paid for certain retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by USA Health and audits by the Medicare fiscal intermediary.

USA Health University Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2015.

USA Health Children's & Women's Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2018.

Revenues from the Medicare program accounted for approximately 15% and 14% of USA Health's net patient service revenues for the years ended September 30, 2020 and 2019, respectively.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at a contractually determined per diem rate based upon MS-DRG groupings. Outpatient services are reimbursed under a contractually determined reimbursement methodology based on BCBS EAPGs.

Revenues from the Blue Cross program accounted for approximately 29% and 30% of USA Health's net patient service revenues for the years ended September 30, 2020 and 2019, respectively.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at all-inclusive prospectively determined per diem rates. Outpatient services are reimbursed based on an established fee schedule.

USA Health qualifies as a Medicaid essential provider and, therefore, also receives supplemental payments based on formulas established by the Alabama Medicaid Agency. There can be no assurance that USA Health will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Revenues from the Medicaid program accounted for approximately 26% and 29% of USA Health's net patient service revenues for the years ended September 30, 2020 and 2019, respectively.

Other – USA Health has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to USA Health under these agreements include discounts from established charges and prospectively determined daily and case rates.

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For the years ended September 30, 2020 and 2019, the University recognized pension expense of approximately \$17,629,000 and \$9,902,000, respectively, which is included in salaries and benefits on the statements of revenues, expenses, and changes in net position.

At September 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2020	
	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	\$ 10,259	—
Changes of assumptions	9,077	—
Differences between expected and actual experience	4,356	9,771
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	32,016
Employer contributions subsequent to measurement date	21,413	—
	\$ 45,105	41,787
	2019	
	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	\$ —	21,342
Changes of assumptions	15,716	—
Differences between expected and actual experience	6,101	8,613
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	27,369
Employer contributions subsequent to measurement date	22,481	—
	\$ 44,298	57,324

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inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	2020	
	Target allocation	Long-term expected rate of return*
Fixed income	17.0 %	4.4 %
U.S. large stocks	32.0	8.0
U.S. mid stocks	9.0	10.0
U.S. small stocks	4.0	11.0
International developed market stocks	12.0	9.5
International emerging market stocks	3.0	11.0
Alternatives	10.0	10.1
Real estate	10.0	7.5
Cash equivalents	3.0	1.5
	100.0 %	

* d (sqID 7c-0.0197 dt)-/u (o)-6.d9 (e(k)-56.3 (a)-6.s (k)-56.3 (k)-56.u (o)-6.75.9 0.78 .379 -1.309 Tdd(F)23 (i)(k)BLt3-

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(g) Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.70%, as well as what the University's proportionate share of the net pension liability would have been if the discount rate had been 0.50 percentage points higher and 0.50 percentage points lower.

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employees, respectively, participating in this plan. University employees as of September 30, 2010, who later transfer to HCM, are immediately vested in the plan. All other employees do not vest until they have held employment with HCM for thirty-six months; at which time they become 100% vested in the plan.

(b) *Compensated Absences*

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statements of net position include accruals for vacation pay and paid time off of approximately \$12,962,000 and \$12,866,000 at September 30, 2020 and 2019, respectively. The accrual is included in other long-term liabilities (and current portion thereof) in the accompanying financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(13) Other Postemployment Benefit Plans

Retirees of the University are covered by the Public Education Employees Health Insurance Plan (PEEHIP), which is a cost sharing multiple-employer defined benefit OPEB plan administered by the TRS.

(a) *Plan Description*

The Alabama Retiree Health Care Funding Act of 2007 authorized and directed the Public Education Employees Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the PEEHIP. The PEEHIP was established in 1983 pursuant to the provisions of the Code of Alabama 1975, Title 16, Chapter 25A to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions and to fund benefits related to the plan. The responsibility for the general administration and operation of the PEEHIP is vested in its Board, which consists of 15 trustees. Title 16-Chapter 25 of the code of Alabama grants the authority to establish and amend the benefit terms to the PEEHIP Board. Effective for the year ended September 30, 2018, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires the reporting of the net OPEB liability and the OPEB expense in the financial statements as well as enhanced financial statements note disclosures.

(b) *Benefits Provided*

PEEHIP offers a basic hospital medical plan to acti

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Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer.

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The Medicare Advantage Prescription Drug (MAPD) plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D in one convenient plan.

(c) Contributions

The employer contribution to the health insurance premium is set forth by the Board annually.

Total employer contributions to the OPEB plan from the University were \$7,947,000 and \$7,772,000 for the years ended September 30, 2020 and 2019, respectively.

(d) OPEB Liabilities, OPEB Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2020 and 2019, the University reported a liability of \$103,288,000 and \$259,418,000, respectively, for its proportionate share of the net OPEB liability. At September 30, 2020, the net OPEB liability was measured as of September 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At the measurement date of September 30, 2019, the University's proportion of contributions to the OPEB plan was 2.737717%, which was a decrease of 0.418703% from its proportion measured as of September 30, 2018 of 3.156420%.

For the years ended September 30, 2020 and 2019, the University recognized OPEB expense of approximately \$(11,830,000) and \$18,6

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At September 30, 2020 and 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2020	
	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 213	—
Differences between expected and actual experience	3,420	79,197
Changes of assumptions	4,938	42,782
Changes in proportion and differences between employer contributions and proportionate share of contributions	20,208	46,198
Employer contributions subsequent to the measurement date	7,947	—
	\$ 36,726	168,177
	2019	
	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on OPEB plan investments	\$ —	1,390
Differences between expected and actual experience	4,884	—
Changes of assumptions	—	12,636
Changes in proportion and differences between employer contributions and proportionate share of contributions	26,465	20,208
Employer contributions subsequent to the measurement date	7,772	—
	\$ 39,121	34,234

At September 30, 2020, approximately \$7,947,000 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2021. Other

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amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

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Rates of mortality for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105%^{2.8} (ted 789.58 391.98le)5- 2don te1 ehn scalet

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payments for all current plan members were projected through 2117. The long-term rate of return is used until the assets are expected to be depleted in 2055, after which the municipal bond rate is used.

(g) Sensitivity of the University's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates and Discount Rates

The following table presents the University's proportionate share of the net OPEB liability calculated using the health care cost trend rate of 4.75%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower 3.75% or 1-percentage point higher 5.75% than the current rate (in thousands):

	2020		
	1% Decrease (3.75)%	Current rate (4.75)%	1% Increase (5.75)%
University's proportionate share of collective net OPEB liability	\$ 82,818	103,288	129,06825.3

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which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements, as the eligibility requirements of the awards have not been met. Advances are included in unrecognized revenues, and include amounts received from grant and contract sponsors which have not been expended under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by federal agencies. The University's management believes any potential adjustment from such audits will not be material.

(b) Letter of Credit

In connection with USA Health's participation in the State of Alabama Medicaid Program, the University had established a \$55,382 irrevocable standby letter of credit with Wells Fargo. The Alabama Medicaid Agency was the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2020 and 2019. This letter of credit terminated on December 31, 2019.

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Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (which generally is the first calendar year of the lease term). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 64,385 and 63,965 square feet at September 30, 2020 and 2019, respectively.

The Corporation owns a building located on the premises of the USA University Hospital, which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease had a 10 year initial term, expiring in March 2020, with three 5 year renewal options. The lease was renewed for an additional 5 years, expiring in March 2025, with two 5-year renewal options. Under the lease, the tenant must also pay for utilities, taxes, insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2020. One lease is for a 40 year initial term expiring in October 2046 with 20 year, and 15 year renewal options. The second lease is for a 30 year initial term expiring in October 2036 with four 5 year renewal options. The third lease has a 38.5 year initial term expiring in September 2046 with 20 year and 15 year renewal options.

Minimum future rentals by fiscal year are as follows (in thousands):

2021	\$	3,343
2022		3,067
2023		2,006
2024		1,596
2025		809
2026–2048		<u>6,284</u>
Total	\$	<u><u>17,105</u></u>

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(17) Functional Expense Information

Operating expenses by functional classification for the years ended September 30, 2020 and 2019 are listed below (in thousands).

	<u>2020</u>	<u>2019</u>
Instruction	\$ 108,737	111,289
Research	31,558	

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	2020	2019
Operating revenues	\$ 224,850	206,493
Operating expenses	(228,936)	(205,883)
Operating loss	(4,086)	610
Nonoperating revenues	5,069	47
Nonoperating expenses	—	(313)
Change in net position	\$ 983	344

(19) Recently Issued Accounting Pronouncements

The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in May 2020. Statement 95 is effective immediately to provide temporary relief in light of the COVID-19 pandemic by postponing the effective dates of certain provisions of other GASB statements that are effective or scheduled to become effective for periods beginning after June 15, 2018. The effective date of the statements noted below have been adjusted to reflect the postponed effective date as allowed by Statement 95.

The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. This statement will be effective for the University beginning with the fiscal year ending September 30, 2021. Statement 84 addresses the criteria for identifying fiduciary activities of all state and local governments.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be effective for the University beginning with the fiscal year ending September 30, 2022. This statement establishes a single model for lease accounting whereby certain leases that were previously classified as operating leases will now be reported on the statements of net position.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective beginning with fiscal year September 30, 2022. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

GASB Statement No. 90, *Majority Equity Interests*, was issued in August 2018. Effective for the University

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The Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020 and is designed to provide economic relief to Higher Education Institutions and other entities for a number of situations including the provision of direct financial support for students in need, reimbursement for the costs incurred as a result of moving instruction online, to provide relief funds for healthcare providers for purposes of covering costs incurred and lost revenues due to the pandemic. As of September 30, 2020, the University (including USA Health) has been awarded \$31,437,000 in CARES Act, and other funding from federal and state sources for COVID-19 relief. Of this amount, \$14,919,000 has been recognized as nonoperating revenue in the statement of revenues, expenses and changes in net position for the year ended September 30, 2020.

As noted, a portion of Cares Act funding has been designated to the health care providers for purposes of covering costs incurred and lost revenues due to the pandemic. Subsequent to the passage of this legislation, the Department of Health and Human Services (HHS) has issued additional pronouncements which provides guidance on how healthcare providers can apply, receive and recognize this funding, certain provisions of which have been reversed/significantly modified in succeeding guidance. USA Health has received approximately \$11,838,000 in CARES Act funding as of September 30, 2020 in both general and targeted distributions. Such funding is accounted for in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Exchange Transactions*, and will be recognized in the statement of revenue, expenses and changes in net position as nonoperating revenue once the applicable terms and conditions have been met. The amounts recognized in the statement of revenues, expenses and changes in net position are conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that the payment will be used to prevent, prepare for and respond to coronavirus, and shall reimburse the recipient only for healthcare related expenses or lost revenues that are attributable to coronavirus. Given the complexity of the guidance provided to date and the nature, timing and volume of changes in such guidance both prior to and subsequent to September 30, 2020, USA Health does not believe that the underlying conditions have been met as of September 30, 2020 which would allow for recognition in the statement of revenues, expenses and changes in net position. As such, amounts are recorded as unrecognized revenues in the accompanying 2020 statement of net position.

Additionally, as part of the CARES Act, the Centers for Medicare and Medicaid Services (CMS) expanded the existing Accelerated and Advance Payments Program (MAAPS) to a broader group of healthcare providers. Accelerated or advance payments under the MAPPS program is intended to provide necessary funds when there is a disruption in claims submissions and processing for a healthcare provider. CMS can also offer these payments in circumstances such as a national emergency or natural disasters in order to accelerate cash flow to impacted healthcare providers. During the year ended September 30, 2020, USA Health received accelerated payments under this program of approximately \$35,156,000. These advances must be repaid and, as such, they are reflected as unrecognized revenues in the accompanying 2020 statement of net position.

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The University's (including USA Health's) pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. Management has taken precautionary steps to enhance operational and financial flexibility and to react to the risks the COVID-19 pandemic presents to operations, including the following:

- Established a campus wide contact tracing office to minimize the spread of the virus and therefore minimizing the financial impact on the University.
- Established a campus-wide campus reopening committee to address COVID issues related to the reopening of campus, including the return of employees and students to an in-person environment.
- As part of campus reopening, the student housing model was revised to provide a safer environment for residential students. This was accomplished by increasing the number of single occupant rooms and creating a quarantine facility within housing for students that become COVID positive.
- Implemented a temporary 4.50% pay reduction in lieu of a one-day per month unpaid furlough for most campus employees from May through August. This unpaid furlough plan ultimately ended and funds were returned to employees due to positive financial results for the University.
- Proactively permanently eliminated certain positions, mostly unfilled, in academic and administrative areas.

Management believes the extent of the COVID-19 pandemic's adverse impact on operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the University's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for indeterminable length of time, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposures. The potential for a negative impact on University enrollment is also uncertain. Because of these and other uncertainties, management cannot accurately estimate the length or severity of the impact of the pandemic on the University.

The University (including USA Health) received additional CARES Act funding subsequent to

September 30, 2020. The University received \$10,000,000 in additional funding from the State of Alabama in August 2020. The University also received \$10,000,000 in additional funding from the State of Alabama in August 2020. The University also received \$10,000,000 in additional funding from the State of Alabama in August 2020.

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Required Supplementary Information

Schedule of the University's Proportionate Share of the Net Pension Liability and Related Ratios (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2020

(In thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
University's proportion of the net pension liability	2.664536 %	2.843720 %	3.018313 %	3.108048 %	3.185471 %
University's proportionate share of the net pension liability	\$ 294,615	282,739	296,654	336,477	329,294
University's covered-employee payroll	181,875	190,559	191,520	200,464	198,378
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	161.99 %	148.37 %	154.89 %	167.85 %	165.99 %
Plan fiduciary net position as a percentage of the total pension liability	69.85 %	72.29 %	71.50 %	67.93 %	67.51 %

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

UNIVERSITY OF SOUTH ALABAMA

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Required Supplementary Information

Schedule of the University's Proportionate Share of the Net OPEB Liability and Related Ratios (Unaudited)

Alabama Retired Education Employees' Health Care Trust

September 30, 2020

(In thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
University's proportion of the net OPEB liability	2.737717 %	3.156420 %	3.449076 %
University's proportionate share of the net OPEB liability	\$ 103,288	259,418	256,178
University's covered-employee payroll	181,875	190,559	191,520
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	56.79 %	136.14 %	133.76 %
Plan fiduciary net OPEB liability	136.79 %		

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Required Supplementary Information
Schedule of the University's OPEB Contributions (Unaudited)

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UNIVERSITY OF SOUTH ALABAMA
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Notes to Required Supplementary Schedules (Unaudited)
September 30, 2020 and 2019

(1) Summary of Cost Sharing Pension Plan Provisions and Assumptions

Employees of the University of South Alabama are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS) of the State of Alabama.

(a) Actuarial Assumptions

The total pension liability as of September 30, 2020 and 2019 was determined by an actuarial valuation as of September 30, 2018 and 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2020</u>	<u>2019</u>
Inflation	2.75 %	2.75 %
Investment rate of return*	7.70	7.70
Projected salary increases	3.25-5.00	3.25–5.00

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015. Mortality rates for TRS were based on the RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target

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Notes to Required Supplementary Schedules (Unaudited)
September 30, 2020 and 2019

(2) Summary of OPEB Plan Provisions and Assumptions

Retirees of the University of South Alabama are covered by the Public Education Employees Health Insurance Plan (PEEHIP), which is a cost sharing multiple-employer defined benefit OPEB plan administered by the Teachers Retirement System (TRS) of the State of Alabama.

(a)

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September 30, 2020 and 2019

(c) Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2014, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule for the years ended September 30, 2020 and 2019:

	2020	2019
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent of pay	Level percent of pay
Remaining amortization period	25 years	26 years
Asset valuation method	Market value of assets	Market value of assets
Inflation	2.875%	3.00%
Health care cost trend rate:		
Pre-medicare eligible	7.75%	7.75%

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 Schedule of Expenditures of Federal Awards
 Year ended September 30, 2020

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to the University expenditures	Total expenditures	Pass-through to subrecipients expenditures
Student Financial Assistance Cluster*:							
U.S. Department of Education:							
Federal Supplemental Educational Opportunity Grant Program	84.007			\$ 433,176	—	433,176	—
Federal Work Study Program	84.033			469,143	—	469,143	—
Federal Perkins Loan Program	84.038			1,683,347	—	1,683,347	—
Federal Pell Grant Program	84.063			18,169,807	—	18,169,807	—
Federal Direct Student Loan Program	84.268			125,208,907	—	125,208,907	—
Teacher Education Assistance for College and Higher Education	84.379			42,848	—	42,848	—
Nurse Faculty Loan Program	93.264			213,001	—	213,001	—
Total Student Financial Assistance Cluster				<u>146,220,229</u>	<u>—</u>	<u>146,220,229</u>	<u>—</u>
Research and Development Cluster:							
U.S. Department of Agriculture:							
Forestry Research	10.652			241,705	—	241,705	—
U.S. Department of Agriculture	10.UNK			63,887	—	63,887	—
Total U.S. Department of Agriculture				<u>305,592</u>	<u>—</u>	<u>305,592</u>	<u>—</u>
U.S. Department of Commerce:							
Sea Grant Support	11.417	18-03 548001-1000	Texas A&M University	—	283,484	283,484	112,723
Sea Grant Support	11.417	8006034-01.01 USA-R/HCE-11-PD	University of Southern Mississippi	—	7,957	7,957	—
Sea Grant Support	11.417	8006034-01.01 USA-R/HCE-16-PD	University of Southern Mississippi	—	<u>10,000</u>	<u>10,000</u>	<u>—</u>
Total CFDA							

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Schedule of Expenditures of Federal Awards
Year ended September 30, 2020

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to the University expenditures	Total expenditures	Pass-through to subrecipients expenditures
Trans-NIH Research Support	93.310	18-0083	University of Alabama at Birmingham	\$ —	630,480	630,480	—
National Center for Advancing Translational Sciences	93.350	UC90631	University of Alabama at Birmingham	—	5,118	5,118	—
National Center for Advancing Translational Sciences	93.350	000520679-010	University of Alabama at Birmingham	—	207,532	207,532	—
COVID-19 – National Center for Advancing Translational Sciences	93.350	000520679-010	University of Alabama at Birmingham	—	65,471	65,471	—
National Center for Advancing Translational Sciences	93.350	000520695-002	University of Alabama at Birmingham	—	64,467	64,467	—
Total CFDA				—	342,588	342,588	—
Research Infrastructure Programs	93.351			364,815	—	364,815	69,875
Advanced Education Nursing Traineeships	93.358	XIONG/ZHA 001/R01NS140349	Morehouse School of Medicine, Inc.	—	7,818	7,818	—
Cancer Cause and Prevention Research	93.393			1,417,261	—	1,417,261	—
Cancer Cause and Prevention Research	93.393	FCCE#15137-01	Fox Chase Cancer Center	—	268,059	268,059	—
Total CFDA				1,417,261	268,059	1,685,320	—
Cancer Treatment Research	93.395			370,470	—	370,470	24,801
Cancer Treatment Research	93.395	170272	Children's Hospital of Philadelphia	—	99	99	—
Cancer Treatment Research	93.395	9500080215-12C	Children's Hospital of Philadelphia	—	1,192	1,192	—
Cancer Treatment Research	93.395	9500080216-13C WORK ORDER	Children's Hospital of Philadelphia	—	3,248	3,248	—
Cancer Treatment Research	93.395	9400380000	Children's Hospital of Philadelphia	—	25	25	—
Cancer Treatment Research	93.395	35263-1	Augusta University	—	67,997	67,997	—
Cancer Treatment Research	93.395	1 R43 CA217502-01A1	ADT Pharmaceuticals, Inc.	—	(1,763)	(1,763)	—
Total CFDA				370,470	70,798	441,268	24,801
Cancer Biology Research	93.396			427,929	—	427,929	—
Cardiovascular Diseases Research	93.837			347,853	—	347,853	—
Cardiovascular Diseases Research	93.837	1R43HL142325-01A1	EVAS Therapeutics LLC	—	(81)	(81)	—
Cardiovascular Diseases Research	93.837	180090	University of Alabama at Birmingham	—	16,834	16,834	—
Total CFDA				347,853	16,753	364,606	—
Lung Diseases Research	93.838			4,568,348	—	4,568,348	201,157
Lung Diseases Research	93.838	170187	Thomas Jefferson University	—	128,102	128,102	—
Lung Diseases Research	93.838	NIH 5 R01 HL058506-22	Thomas Jefferson University	—	161,741	161,741	—
Total CFDA				4,568,348	289,843	4,858,191	201,157
Arthritis Musculoskeletal and Skin Diseases Research	93.846			30,944	—	30,944	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	576028	University of Pennsylvania	—	30,319	30,319	—
Clinical Research Related to Neurological Disorders	93.853			297,380	—	297,380	59,631
Allergy Immunology and Transplantation Research	93.855			382,761	—	382,761	—
Allergy Immunology and Transplantation Research	93.855	000522211-016	University of Alabama at Birmingham	—	12,591	12,591	—
COVID-19 – Allergy Immunology and Transplantation Research	93.855	20-0345	Florida International University	—	3,682	3,682	—
Total CFDA				382,761	16,273	399,034	—
Pharmacology Physiology and Biological Chemistry	93.859			572,871	—	572,871	119,747
Pharmacology Physiology and Biological Chemistry	93.859	783K893	University of Wisconsin-Madison	—	24,840	24,840	—
Total CFDA				572,871	24,840	597,711	119,747
Aging Research	93.866			13,389	—	13,389	—
HIV Prevention Activities Health Department Based	93.940	19-0124	University of Alabama at Birmingham	—	36,290	36,290	—
Medicaid	93.UNK	19-0041	ADT Pharmaceuticals Inc	—	26,689	26,689	—
Medicaid	93.UNK	19-0062	Florida International University	—	46,535	46,535	—
Medicaid	93.UNK	HHSO100201500027C	Stratiatech Corporation	—	5,618	5,618	—
National Institute of Health	93.UNK	18038-01	Fox Chase Cancer Center	—	21,139	21,139	—
Total U.S. Department of Health and Human Services				9,888,334	2,268,190	12,156,524	502,598
Total Research and Development Cluster				17,511,833	4,312,863	21,824,696	2,519,295
Other federal assistance:							
U.S. Department of Commerce:							
Coastal Zone Management Administration Awards	11.419	USA-CZM-309-20-1	Alabama Dept. of Conservation and Natural Resources	—	10,465	10,465	—
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology	11.451	DISL SHORT FORM D-14	Dauphin Island Sea Lab	—	16,172	16,172	—
U.S. Department of Commerce	11.UNK	170230	Earth Networks, Inc.	—	22,122	22,122	—
U.S. Department of Commerce	11.UNK	20-0398	Synoptic Data PBC	—	37,544	37,544	—
U.S. Department of Commerce	11.UNK	9943-05	Moffatt & Nichol	—	15,386	15,386	—
Total U.S. Department of Commerce				—	101,689	101,689	—

UNIVERSITY OF SOUTH ALABAMA
 (A Component Unit of the State of Alabama)
 Schedule of Expenditures of Federal Awards
 Year ended September 30, 2020

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to the University expenditures	Total expenditures	Pass-through to subrecipients expenditures
U.S. Department of Defense:							
Basic Scientific Research	12.431			\$ 204,317	—	204,317	—
Air Force Defense Research Sciences Program	12.800			38,391	—	38,391	—
U.S. Department of Defense	12.UNK	DESE-19-020	DESE Research, Inc	—	53,269	53,269	—
Total U.S. Department of Defense				<u>242,708</u>	<u>53,269</u>	<u>295,977</u>	<u>—</u>
U.S. Department of Labor:							
WIOA Youth Activities Cluster	17.259	07703881	Southwest Alabama Partnership for Training & Employment, Inc	—	82	82	—
U.S. Department of Treasury:							
COVID-19 – Coronavirus Relief Fund*	21.019	20-0544	Alabama Department of Finance	—	2,033,824	2,033,824	—
COVID-19 – Coronavirus Relief Fund*	21.019	Total 54 /6351 Tc 0 887012 of Fund* JJEMC /TD 4 1033,2822.824					
COVID-19 – Coronavirus Relief Fund*	21.019						

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2020

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to the University expenditures	Total expenditures	Pass-through to subrecipients expenditures
Cancer Prevention & Control Programs for State, Territorial & Tribal Orgs	93.898	C90116193 (GC-19-293)	State of Alabama Dept of Public Health	\$ —	41,264	41,264	—
HIV Care Formula Grants	93.917	RW-USAF-2021	United Way of Central Alabama	—	14,205	14,205	—
HIV Care Formula Grants	93.917	190358	United Way of Central Alabama	—	23,736	23,736	—
Total CFDA				—	37,941	37,941	—
COVID-19 Testing for the Uninsured*	93.461			1,478,187	—	1,478,187	—
Total U.S. Department of Health and Human Services				3,969,668	1,317,869	5,287,537	—
Corporation for National and Community Service: AmeriCorp	94.006			4,045	—	4,045	—
Total other federal assistance				14,759,577	5,306,781	20,066,358	—
Total federal expenditures				\$ 178,491,639	9,619,644	188,111,283	2,519,295

* Indicates major program

See accompanying notes to schedule of expenditures of federal awards.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Notes to Schedule of Expenditures of Federal Awards

September 30, 2020

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the University of South Alabama (the University) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Campus-Bas 0.4 s-B2 Pro7 (s o24.msP MICID 4 BDC TT9 1 Tf0.0003 Tc -0.0027 Tw -26.131 -1.10(The acct)9.Out4

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Notes to Schedule of Expenditures of Federal Awards

September 30, 2020

During the year ended September 30, 2020, the University advanced to students the following amounts of new loans under Direct Loan Programs:

	<u>Amount advanced</u>
Stafford loans	\$ 16,929,781
Unsubsidized Stafford loans	71,551,745
Parent Loans for Students	<u>36,727,381</u>
Total	<u>\$ 125,208,907</u>

(5) Matching

Under the Federal Supplemental Education Opportunity Grant Program, the University matched \$192,913 in funds awarded to students for the year ended September 30, 2020 in addition to the Federal share of expenditures included in the Schedule.

(6) Indirect Cost Rate

For the year ended September 30, 2020, the University did not elect to use the 10% De Minimus Indirect Cost Rate permitted by Uniform Guidance, as a negotiated indirect cost rate existed on all grants where indirect costs are applicable.



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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
University of South Alabama:

Report on Compliance for Each Major Federal Program

We have audited the University of South Alabama's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2020. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the provisions of the Uniform Guidance that apply to its operations.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Findings and Questioned Costs
Year ended September 30, 2020

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with U.S. generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
- Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
- Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major programs:
- Student Financial Assistance Cluster – various CFDA numbers
 - COVID-19 – Coronavirus Relief Fund – CFDA #21.019
 - ~~None reported~~ COVID-19 – Education Stabilization Fund – CFDA #84.425E, 84.425F, and 84.425M
 - COVID-19 – Testing for the Uninsured – CFDA #93.461
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,256,732**
- (i) Auditee qualified as a low-risk auditee: